

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 18338

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TAGS: ETRD, EFIN, ENRG, EINC, UR, XG, US, COMECON

SUBJECT: MOSCOW'S 1976-1980 PLAN FOR FOREIGN ECONOMIC RELATIONS:
AN UNCLEAR COURSE

REF: (A) MOSCOW 17899 (NOTAL); (B) MOSCOW 17894

1. SUMMARY - THE BRIEF AND VERY GENERAL CHAPTER OF THE NEW FIVE-YEAR PLAN DIRECTIVES ON SOVIET FOREIGN ECONOMIC RELATIONS FOR THE PERIOD 1976-1980/ PROJECTS A RELATIVELY MODEST FOREIGN TRADE INCREASE OF 30 TO 35 PERCENT OVER LEVELS ACHIEVED DURING 1971-1975. ALTHOUGH FOREIGN TRADE TARGETS FOR THE CURRENT PLAN WERE EASILY OVERFULFILLED, MAINLY DUE TO THE HUGE VOLUME OF SOVIET CAPITAL EQUIPMENT PURCHASES FROM THE
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INDUSTRIAL WEST, AND SOVIET OFFICIALS ARE PUBLICLY

INSISTING THAT THEIR BUYING WAVE IN CAPITALIST MARKETS WILL CONTINUE, EMBASSY BELIEVES THAT A NUMBER OF UNCERTAIN FACTORS -- MANY OF THEM NON-ECONOMIC -- MAKE IT IMPOSSIBLE FOR THE SOVIETS TO PLAN THE EXACT COURSE, OR SUCCESS, OF THEIR FOREIGN ECONOMIC RELATIONS PROGRAMS AFTER 1976. SERIOUS PROBLEMS INCLUDE AGRICULTURE, ATTEMPTS TO COVER BOTH EAST EUROPEAN AND DOMESTIC SOVIET REQUIREMENTS FOR RAW MATERIALS AND ENERGY, THE OUTSIDE PRESSURES OF WESTERN INFLATION AND RECESSION, AND THE FUTURE OF DETENTE ITSELF.

2. IN CASE OF CEMA INTEGRATION, SOVIET PLANNERS ARE CONTINUALLY FACED WITH EXTREMELY DELICATE POLITICAL-ECONOMIC PROBLEMS DESPITE THEIR UNUSUALLY ADVANTAGEOUS POSITION AS A DISPENSER OF RAW MATERIALS AND ENERGY. AND ALTHOUGH IT APPEARS THAT THE MOMENTUM OF SOVIET PURCHASING FROM THE WEST WILL CONTINUE THROUGH 1976, THERE ARE INDICATIONS THAT THIS MAY BE A "NO CASH YEAR" AS FAR AS NEW CONTRACTS ARE CONCERNED, WITH SOVIETS INSISTING IN MOST CASES ON USE OF LOW-INTEREST CREDITS. OVERALL, IT APPEARS MORE AND MORE EVIDENT THAT THE COURSE WHICH LIES AHEAD FOR CEMA INTEGRATION, SOVIET FOREIGN TRADE AND OTHER ASPECTS OF FOREIGN ECONOMIC RELATIONS IS CLOSELY LINKED WITH BROADER, MUCH MORE COMPLEX PROBLEMS, BOTH POLITICAL AND ECONOMIC, THAN THOSE UNDER IMMEDIATE CONTROL OF SOVIET ECONOMIC LEADERSHIP. END SUMMARY.

3. THIS TELEGRAM CONTAINS EMBASSY'S COMMENTS ON SECTION TEN OF THE SOVIET 1976-1980 FIVE-YEAR PLAN DIRECTIVES WHICH IS CONCERNED WITH FOREIGN ECONOMIC RELATIONS (FOREIGN TRADE, CEMA INTEGRATION, APPROACH TO DEVELOPING COUNTRIES). WE ALSO COMMENT ON SOME OF PROBLEMS USSR FACES IN THIS AREA.

4. THE FOREIGN ECONOMIC RELATIONS SECTION OF THE PLAN DIRECTIVES IS UNUSUALLY SHORT COMPARED TO OTHER CHAPTERS, CONSISTING OF ONLY TEN PARAGRAPHS. IT IS ALSO VERY GENERAL IN CONTENT WITH ONLY ONE TARGET FIGURE. SUMMARIZED, ITS MAIN POINTS ARE:

(A) AN INCREASE OF 30 TO 35 PERCENT IN TOTAL FOREIGN
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TRADE TURNOVER (THE ONLY FIGURES LISTED IN THE ENTIRE SECTION), GREATER PARTICIPATION OF THE SOVIET UNION IN THE INTERNATIONAL DIVISION OF LABOR, AN INCREASED ROLE FOR FOREIGN ECONOMIC RELATIONS IN "REALIZATION OF NATIONAL ECONOMIC TASKS," AND ALSO IN THE "ACCELERATION OF SCIENTIFIC-TECHNICAL PROGRESS."

(B) IMPROVED FOREIGN TRADE STRUCTURE THROUGH INCREASED PRODUCTION, HIGHER QUALITY, MORE COMPETITIVE PRODUCTS, AND IMPORTS WHICH HAVE GREATER VALUE FOR

DEVELOPMENT OF SOVIET ECONOMY.

(C) INCREASED USE OF "NEW FORMS OF MUTUALLY ADVANTAGEOUS ECONOMIC COOPERATION, AMONG THEM JOINT-PROJECTS.

(D) FULL SPEED AHEAD FOR CEMA INTEGRATION. TWO PARAGRAPHS REPEAT THE STANDARD LITANY ON IN-DEPTH PLAN COORDINATION, INTERNATIONAL SPECIALIZATION AND COOPERATIVE PRODUCTION.

(E) A PERFUNCTORY NOD TO THE IMPORTANCE OF TRADE AND ECONOMIC TIES WITH DEVELOPING COUNTRIES, INCLUDING A REFERENCE TO THEIR DESIRE FOR ECONOMIC INDEPENDENCE.

(F) APPROVAL OF THE FURTHER DEVELOPMENT, "ON A LONG-TERM BASIS", OF TRADE WITH THE INDUSTRIALLY DEVELOPED CAPITALIST COUNTRIES, "AS A RESULT OF PRINCIPLES OF PEACEFUL COEXISTENCE AND TAKING INTO ACCOUNT THE RELAXATION OF INTERNATIONAL TENSIONS."

(G) A BRIEF REFERENCE TO HELSINKI AND BASKET II.

(H) FURTHER STEPS IN PLANNING AND MANAGEMENT OF SOVIET FOREIGN TRADE, INCLUDING INCREASED RESPONSIBILITIES FOR MINISTRIES AND AGENCIES IN DEVELOPMENT OF FOREIGN ECONOMIC TIES, EXPANDING THE PRODUCTION OF EXPORT PRODUCTS AND MORE RAPID EXPLOITATION OF IMPORTED EQUIPMENT IN CONSTRUCTION PROJECTS.

5. WITH POSSIBLE EXCEPTION OF MENTION OF INCREASED RESPONSIBILITIES FOR MINISTRIES, NONE OF ABOVE CAN BE REGARDED AS PARTICULARLY NEW. PROPOSED FIVE-YEAR INCREASE IN FOREIGN TRADE TURNOVER (TOTAL VALUE OF EXPORTS AND IMPORTS) IS APPROXIMATELY SAME AS THAT CALLED FOR BY 1971-75 PLAN NOW DRAWING TO A CLOSE. AND IT APPEARS AS A VERY MODEST OBJECTIVE, GIVEN FACT THAT FOREIGN TRADE TARGETS FOR 1971-75 PLAN WERE EASILY OVERFULFILLED, BEING MET BY END OF 1974.

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6. THE HUGE UPSURGE IN SOVIET CAPITAL GOODS PURCHASES FROM THE DEVELOPED CAPITALIST COUNTRIES, WHEAT PURCHASES, AND A STEADY-- BUT NOT AS SPECTACULAR-- INCREASE IN SOVIET TRADE WITH CEMA AREA ACCOUNTED FOR MUCH OF THIS OVERFULFILLMENT. WILL THE BOOM IN BUYING FROM THE WEST CONTINUE THROUGH 1980? THE OFFICIAL AND EMPHATICALLY REPEATED SOVIET LINE IS THAT IT WILL. OVER PAST SEVERAL MONTHS ONE HIGH-LEVEL WESTERN VISITOR TO MOSCOW AFTER ANOTHER HAS BEEN ASSURED THAT PLANS FOR INCREASED WESTERN TRADE, AND PARTICULARLY FOR IMPORTANT CAPITAL EQUIPMENT PURCHASES, COMPLETE INDUSTRIAL PLANTS, WILL CONTINUE AT SAME RATE AS THEY HAVE OVER PAST FIVE YEARS. MOST RECENTLY, MINISTER OF FOREIGN TRADE PATOLICHEV, VISITING LONDON FOR TRADE TALKS, ASSURED

BRITISH OFFICIALS THAT THERE WOULD BE NO DOWNTURN IN
SOVIET BUYING.

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7. THUS, FOR THE IMMEDIATE FUTURE THERE APPEARS TO BE
NO DOUBT THAT SOVIET PLANNERS EXPECT THE FOREIGN TRADE
BOOM TO CONTINUE. THE 1976 PLAN CALLS FOR AN INCREASE
OF 13.6 PERCENT OVER FOREIGN TRADE PERFORMANCE (NOT
PLAN) FOR 1975. THIS IS OF COURSE SUBSTANTIALLY ABOVE AVERAGE
YEARLY INCREASE OF 8 TO 10 PERCENT CALLED FOR BY 30-35 PERCENT
FIVE-YEAR FIGURE MENTIONED IN RECENTLY PUBLISHED DIRECTIVES.

8. WE BELIEVE THAT THE POSSIBILITY FOR A YEARLY
INCREASE OF ABOUT 13 OR 14 PERCENT CONTINUING AFTER 1976
DEPENDS ON A NUMBER OF IMPONDERABLES, SOME OF THEM
POLITICAL AND MANY OF THEM INVOLVING FACTORS NOT SUBJECT

TO SOVIET CONTROL. AMONG THEM MUST INEVITABLY BE
MOSCOW'S DEGREE OF SUCCESS IN SOLVING ITS PERSISTENT
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AGRICULTURAL PROBLEM, WHICH IN TURN, MUST BE AFFECTED
BY SUCH UNPREDICTABLE ELEMENTS AS WEATHER IN THE UKRAINE,
CENTRAL ASIA AND SIBERIA. ANOTHER MUST BE THE AGONIZING
NECESSITY OF ALLOCATING SUFFICIENT RAW MATERIALS FOR
EASTERN EUROPE AND FOR DOMESTIC REQUIREMENTS, BUT STILL
MANAGING TO INCREASE HARD CURRENCY SALES IN WESTERN
MARKETS, THEREBY EASING THE PRESSURE TO SELL GOLD TO PAY
GRAIN BILLS AND COVER TRADE DEFICITS. AND STILL ANOTHER
MUST BE THE PRESSURES OF INFLATION AND RECESSION IN THE
WEST WHICH, DESPITE MOSCOW'S CLAIMS OF COMPLETE
INSULATION FROM THE "FEVERISH FLUCTUATIONS OF CAPITALIST
MARKETS", HAVE OBVIOUSLY CONTRIBUTED TO SOVIET AND CEMA
ECONOMIC DIFFICULTIES. FINALLY THERE IS THE ENTIRE
FABRIC OF DETENTE ITSELF. SHOULD IT ERODE OR BREAK
DOWN, WHAT WILL BE THE IMPACT ON FOREIGN TRADE? OR,
MORE SPECIFICALLY, HOW MUCH WILL IT REDUCE THE AVAILABILITY OF
WESTERN EQUIPMENT AND TECHNOLOGY WHICH IS URGENTLY NEEDED IF LONG-RANGE

(1975-1990) DEVELOPMENT PLANS ARE TO BE MET?

9. TURNING TO EASTERN EUROPE AND CEMA INTEGRATION, WE
NOTE OTHER UNCERTAINTIES, VARIABLES WHICH SOVIET PLANNERS
MUST FIND VEXING BUT ABOUT WHICH THEY CAN DO LITTLE OR
NOTHING. ALTHOUGH IT APPEARS OBVIOUS THAT ALL LIGHTS
ARE NOW GREEN FOR FURTHER INTEGRATION, AND THAT, FOLLOWING
THE SUDDEN, SHARP INCREASE IN WORLD PRICES FOR ENERGY
AND RAW MATERIALS, SOVIETS NOW HAVE POSSIBLY MORE
LEVERAGE THAN EVER BEFORE TO BRING THE ECONOMIES
OF THE SMALL COUNTRIES OF EASTERN EUROPE INTO LINE, THERE
IS ALWAYS THE DELICATE PROBLEM OF HOW FAR THEY CAN BE PUSHED.
HOW MUCH PRESSURE CAN BE IMPOSED ON HUNGARY
TO SUPPLY SKILLED LABOR, EQUIPMENT AND HARD CURRENCY
IMPORTS FOR THE ORENBURG PIPELINE? HOW MUCH CAN OIL
EXPORTS TO POLAND BE REDUCED, OR HOW LITTLE CAN THEY BE
INCREASED? WHAT HAPPENS TO THE CZECHOSLOVAK ECONOMY
WHEN INTRA-CEMA RAW MATERIAL AND ENERGY PRICES MAKE
ANOTHER UPWARD JUMP IN ACCORDANCE WITH THE NEW CEMA
FORMULA BASED ON A FIVE-YEAR, WORLD-MARKET-PRICE
AVERAGE? DESPITE THE CHEERLEADING IN THE SOVIET PRESS
AND THE STERN ADMONITIONS FROM SUCH SOVIET OFFICIALS AS
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CEMA REPRESENTATIVE LESECHKO, THERE SEEM TO BE MANY POTENTIAL PITFALLS AHEAD IN CEMA INTEGRATION PLANS. THE DIFFICULTIES IN DRUMMING UP EE PARTICIPATION IN ORENBURG SEEM TO BE ONLY ONE HIGH-VISIBILITY EXAMPLE.

10. FOR THE IMMEDIATE FUTURE, THE YEAR 1976, THERE APPEARS TO BE POSSIBILITY OF CONTINUED INCREASE IN SOVIET TRADE WITH THE INDUSTRIAL WEST WHICH MAY PERMIT ACCOMPLISHMENT OF THE PLANNED 13.5 PERCENT INCREASE. GRAIN IMPORTS ADDED TO THE CONTINUED MOMENTUM OF CAPITAL EQUIPMENT PURCHASES SHOULD OFFSET SOME OF THE IMPACT OF WESTERN RECESSIONS ON SOVIET EXPORTS. DELIVERIES, SOME UNDER CONTRACTS WITH WESTERN FIRMS SIGNED ONE OR TWO YEARS EARLIER, WILL BE MADE. NEW CONTRACTS WILL ALSO BE SIGNED. BUT THERE ARE ALREADY VARIOUS INDICATIONS THAT 1976 MAY WELL BE A "NO CASH" YEAR AS FAR AS NEW CONTRACTS ARE CONCERNED. IT APPEARS VERY PROBABLY THAT THE SOVIETS, FACED WITH ACUTE HARD CURRENCY SHORTAGES, WILL BE MAKING NEW PURCHASES ONLY ON CREDIT. THERE MAY BE SOME EXCEPTIONS, SUCH AS CASH PAYMENTS FOR ORENBURG EQUIPMENT BASED ON RECENT EURO-DOLLAR BORROWING, BUT IN GENERAL IT SEEMS PROBABLY THAT 1976 CAPITAL GOODS PURCHASES WILL DEPEND MAINLY ON DRAW-DOWNS FROM EXISTING, CHEAP STATE CREDITS (UK, FRANCE, ITALY, JAPAN) OR VERY COMPETITIVE COMMERCIAL CREDITS.

11. ONE RATHER GRAPHIC EXAMPLE OF THIS PROBABLE NEW POLICY WAS MENTIONED TO AMBASSADOR RECENTLY BY VISITING GENERAL ELECTRIC OFFICIAL WHO HAD BEEN NEGOTIATING SALE OF LARGE QUANTITY OF POWER EQUIPMENT TO MINISTER OF POWER AND ELECTRIFICATION, P.F. NEPOROZHNIY. ACCORDING TO THE GE OFFICIAL AFTER SEVERAL MONTHS OF TALKS NEPOROZHNIY SUDDENLY ASKED THAT NEGOTIATIONS BE SUSPENDED. REASON? HE SAID THAT ALL OF HIS CASH HAD BEEN TAKEN AWAY FROM HIM BECAUSE OF THE GRAIN CRISIS. HE HAD BEEN TOLD BY "HIGHER AUTHORITIES" THAT "IT IS BETTER TO BE FED IN DARKNESS THAN TO STARVE WITH THE LIGHTS ON."

12. JUST WHAT IMPACT THIS "TEMPORARY" CASH SHORTAGE WILL HAVE ON SOVIET FOREIGN TRADE PATTERNS IN THE YEARS 1977 AND 1978, IS DIFFICULT TO PREDICT. BUT WE FEEL THAT IT IS, IN ITSELF, TYPICAL OF THE VAGARIES AND
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UNCERTAINTIES WHICH CONFRONT THE SOVIET UNION IN TRYING TO PLOT THE COURSE OF ITS FOREIGN ECONOMIC RELATIONS OVER THE NEXT FIVE YEARS. THE COURSE WHICH LIES AHEAD FOR FOREIGN TRADE AND CEMA INTEGRATION APPEARS TO BE INEXTRICABLY LINKED WITH MUCH BROADER, MORE COMPLEX PROBLEMS, THAN THOSE UNDER THE IMMEDIATE CONTROL OF THE BUREAUCRATIC

LABYRINTHS OF GOSPLAN OR THE WORLD OF "SOCIALIST ECONOMICS." STOESSEL

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